

## 1.0 INTRODUCTION

### 1.1. Purpose and Overview

Central Kitsap Fire and Rescue (CKFR or “the District”) has established this Debt Policy to help ensure that all debt is issued both prudently and cost effectively. The Debt Policy sets forth comprehensive guidelines for the issuance and management of all financings of the District. Adherence to the policy is essential to ensure that the Board maintains a sound debt position and protects the credit quality of its obligations.

### 1.2. Policy Contents

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### 1.3. Definitions

**Arbitrage** – The difference between the interest paid on tax-exempt bonds and the interest earned by investing the proceeds of the tax-exempt bonds in higher-yielding taxable securities.

**Board** – Central Kitsap Fire and Rescue’s five member Board of Commissioners which is also the District’s Legislative Authority.

**Bond Counsel** – An attorney or law firm retained, typically by the issuer, to give the traditional bond counsel opinion. Such opinion customarily opines that the bonds have been validly issued and, if tax exemption is intended, that the bonds are tax-exempt bonds.

**Competitive Bid / Sale** – A method of sale chosen by an issuer, requesting underwriters to submit a firm offer to purchase a new issue of municipal securities usually awarded based on the lowest interest rate cost.

**Coupon / Coupon Rate** – The periodic rate of interest, usually calculated as an annual rate payable on a security expressed as a percentage of the principal.



**Debt Limit** – The maximum principal amount of debt that an issuer of municipal securities is permitted to have outstanding at any time under constitutional, statutory or bond contract provisions

**Financing Team** – Parties involved with planning and executing the District’s debt issuance including bond counsel, Municipal Advisor, county treasurer, underwriter, architect, etc.

**General Obligation Debt / Bond** – Debt issued by a state or local government that is payable from general funds of an issuer, although the precise source and priority of payment for general obligation bonds may vary.

**Issuer** – A governmental agency that raises funds through the sale of municipal securities. The District is the issuer referred to in this Policy.

**Limited Tax General Obligation Bond (LTGO)** – A general obligation bond payable from ad valorem taxes (taxes based on assessed value of property within the District) that are limited by law in rate or amount.

**Maturity** – The date the principal of a municipal security becomes due and payable to the bondholder.

**Municipal Advisor** – A person or entity that provides advice to or on behalf of the issuer or obligated person with respect to municipal financial products or the issuance of municipal securities, including advice with respect to the structure, timing, terms, and other similar matters concerning such financial products.

**Negotiated Sale** – The sale of a new issue of municipal securities by an issuer directly to an underwriter or underwriting syndicate selected by the issuer.

**Private Placement / Direct Purchase** – A primary offering in which a placement agent sells a new issue of municipal securities on behalf of an issuer directly to investors on an agency basis rather than by purchasing the securities from the District and reselling them to investors.

**Rating Agencies** – A company that provides ratings that indicate such company’s opinion of the relative credit quality of securities.

**Refunding** – A procedure whereby an issuer refinances outstanding bonds by issuing new bonds generally undertaken to reduce the issuer’s interest costs or to remove a burdensome or restrictive covenant imposed by the terms of the bonds being refinanced.

**Underwriter** – A municipal securities dealer that purchases a new issue of municipal securities from the issuer for resale in a primary offering. The underwriter may acquire the securities either by negotiation with the issuer or by award on the basis of competitive bidding.

**Unlimited Tax General Obligation Bond (UTGO)** – A bond payable from ad valorem taxes that are not limited by law in rate or amount.



## 2.0 GOVERNING PRINCIPLES

In the issuance and management of debt, CKFR shall comply with the state constitution and with all other legal requirements imposed by federal, state, and local laws, rules and regulations, as applicable. The following section highlights the governing laws and legal framework of the debt issuance.

### 2.1. Governing Law

- 2.1.1. **State Law** – The District may contract indebtedness as provided for by chapter 52 RCW. Indebtedness represented by obligations for borrowed money payable from taxes is subject to the limitations on indebtedness provided for in RCW 52.16 and Article VIII of the Washington State Constitution. Bonds evidencing indebtedness shall be issued and sold in accordance with chapter 39.46 and 52.16 RCW. Refunding bonds shall be issued in accordance with chapter 39.53 RCW.
- 2.1.2. **Federal Laws, Rules and Regulations** – CKFR shall issue and manage debt in accordance with applicable federal tax and securities laws and regulations, including the Internal Revenue Code of 1986, as amended (the “Code”); the Treasury Department regulations thereunder; and the Securities Act of 1933 and Securities Exchange Act of 1934 and applicable Securities and Exchange Commission regulations thereunder.
- 2.1.3. **Local Laws and Regulations** – CKFR shall issue and manage debt in accordance with the limitations and constraints imposed by local, ordinances, rules and regulations.

### 2.2. Permitted Debt by Type – Subject to changes in state laws, CKFR may legally issue debt using only the debt instruments described below:

- 2.2.1. **Unlimited Tax General Obligation Debt** – The District is authorized to issue Unlimited Tax General Obligation Debt under chapter 52.16.061 RCW, subject to the approval of the Board and approval of the voters within the jurisdiction of the District as required by law.
- 2.2.2. **Limited Tax General Obligation Debt** – CKFR is authorized to issue Limited Tax General Obligation Debt under chapter 52.16.080 RCW, subject to the approval from the Board.
- 2.2.3. **Other Charges and Special Assessments**
  - a. **Benefit Charges** – CKFR is authorized to collect Fire Protection Benefit Charges for non-district wide improvements pursuant to 52.18 RCW.
  - b. **Special Assessment Debt** – Special Assessment debt, including Local Improvement District (LID), is authorized pursuant to RCW 52.20.



### 2.3. **Purpose for Borrowing**

- 2.3.1. **Capital Acquisitions** – CKFR is authorized to issue long-term debt for the purpose of financing or refinancing the cost of design, acquisition and/or construction of long-lived capital projects including, but not limited to those for land, improvements and apparatus.
- 2.3.2. **Planning Required** – Capital projects financed with debt shall have been included in a comprehensive capital facilities plan, or long-term capital needs plan (“the Plan”) pursuant to Section 2 of the District’s Financial Policies. The Plan should identify major impacts on future operating budgets if known. Individual project costs should be evaluated to determine if they could best be funded from balances in existing capital funds rather than through the issuance of debt.
- 2.3.3. **Short-Term Debt** – In general, the District should avoid issuing debt to support normal, current operations, or to finance short-term obligations having repayment terms of less than three years. However, situations may arise where the issuance of short-term debt may be necessary or advantageous to the District. Therefore, CKFR may issue debt for short-term obligations only upon adoption of a formal Board Resolution authorizing the issuance. The Resolution shall state the specific purpose and circumstances for which the debt will be issued as well as the term and size of borrowing.

### 2.4. **Limitations on Debt Issuance**

- 2.4.1. **Legal Debt Limits** – General obligation debt is constitutionally and statutorily limited to an indebtedness amount not exceeding:
  - a. 0.375% of the value of the taxable property (i.e., assessed valuation), without voter approval (RCW 52.16.061); and
  - b. 0.75% of the value of the taxable property, for total outstanding general obligation debt, including non-voted debt and bonds issued with the assent of 60% of the voters voting at an election held for that purpose, where the total number of voters casting ballots at the election is not less than 40% of the number of votes cast in the last state general election (RCW 39.36.020 and RCW 52.16.080).
- 2.4.2. **Legal Consultation Required** – In calculating the district’s legal debt limit, CKFR will consult with its legal advisors to determine whether particular obligations are to be treated as debt within the statutory and constitutional limits.
- 2.4.3. **Debt Limit Policy Cap** – Notwithstanding the aforementioned Legal Debt Limits, total borrowings shall not exceed 85% of the legal debt limits without unanimous approval from the District’s Board of Commissioners at a regularly scheduled open Board meeting.



## 2.5. **Ethical Standards Governing Conduct**

The District's officers and elected officials will adhere to standards of conduct as stipulated by the following:

- a. CKFR Code of Ethics;
- b. Code of Ethics for Municipal Officers Act, chapter 42.23 RCW;
- c. Applicable federal laws, rules and regulations.

## 3.0 **ROLES AND RESPONSIBILITIES**

3.1. **Board of Commissioners** – It is the responsibility of the CKFR Board of Commissioners to carry out the following actions regarding debt issuance:

- 3.1.1. Approve the capital plan and authorize projects to be financed;
- 3.1.2. Adopt a resolution authorizing the issuance and sale of debt and determine whether the execution of a sale will be delegated to the Fire Chief within the parameters for the delegation (RCW 39.46.040);
- 3.1.3. Approve and oversee the implementation of this Debt Policy;
- 3.1.4. Approve budgets and appropriations sufficient to provide for the timely payment of principal and interest on all debt;
- 3.1.5. Approve Issuance and Post-Issuance Tax Compliance and Disclosure Policies as deemed appropriate;
- 3.1.6. Provide general oversight of the debt issuance, including appropriate review and approval of the disclosure documents.

3.2. **Debt Management** – The primary responsibility for day-to-day debt management rests with the Fire Chief and as directed by the Fire Chief, the Finance Director. The Finance Director – in consultation with CKFR's counsel, Municipal Advisor, bond counsel, and subject to the Fire Chief's and/or CKFR Board's approval – shall be responsible for the following tasks:

- 3.2.1. Provide oversight for a bond sale, including appropriate review and approval of the disclosure documents including preliminary and final official statements;
- 3.2.2. Determine the most appropriate debt instrument for a proposed sale;
- 3.2.3. Provide for the issuance of debt at the lowest possible cost and risk;
- 3.2.4. Determine and manage the available debt capacity; inform the Board of the debt capacity;



- 3.2.5. Provide for the issuance of debt at appropriate intervals and in reasonable amounts as required to fund approved capital and other expenditures;
- 3.2.6. Approve appointment of any professionals associated with the issuance of debt;
- 3.2.7. Monitor opportunities to refund debt and recommend such refunding as appropriate;
- 3.2.8. Provide for the timely payment of principal of and interest on all debt; ensure that the fiscal agent receives funds for payment of debt service on or before the payment date;
- 3.2.9. Comply with all terms, conditions and disclosure required by the legal documents governing the debt issued;
- 3.2.10. Provide for the distribution of pertinent information to rating agencies;
- 3.2.11. Maintain a current database with all outstanding debt;
- 3.2.12. Apply and promote prudent fiscal practices; and
- 3.2.13. Perform **Debt Issuance tasks** including:
  - a. Submit to the Board all recommendations to issue debt;
  - b. Recommend to the Board the type of debt to be issued;
  - c. Recommend to the Board the manner of sale of debt;
  - d. Together with Bond Counsel help draft an authorizing ordinance/resolution to be submitted to the Board to authorize debt and establishing parameters for the issuance and sale of such obligations;
  - e. Develop a financing structure for a particular bond issue that minimizes the cost and risk to CKFR, within the parameters set by the authorizing ordinance/resolution; and
  - f. Provide for and participate in the preparation and review of offering and disclosure documents; and
- 3.2.14. Perform **Post-Issuance tasks** including:
  - a. Develop and implement procedures to ensure compliance with all applicable provisions of the U.S. Tax Code and Securities Laws;
  - b. Develop and implement procedures to ensure compliance with the District's continuing disclosure undertakings; and
  - c. Provide to the MSRB annual disclosure reports and notices regarding the occurrence of certain events specified in CKFR's continuing disclosure undertakings.



## 4.0 PROFESSIONAL SERVICES

The District shall procure professional services as required to execute financing transactions and to advise on non-transaction related work. Professional services may be provided by Municipal Advisors, Legal Counsel, underwriters, and other service providers such as rating agencies, trustees or escrow agents, verification agents, printers, arbitrage rebate calculation firms, bidding agents, and credit enhancement providers.

- 4.1. **Selection Process** – The selection of financial and legal professionals to assist the District in carrying out financing programs must be consistent with procurement procedures that may be required by federal, state or local law, or by local policy. If not required by federal, state or local law or policy, CKFR may elect to use a competitive bid process involving a Request for Proposals (RFP) consistent with procurement procedures specified by the Procurement SOP.
- 4.2. **Appointment of Municipal Advisor** – The District may select a Municipal Advisor to assist in the issuance and administration of all debt. The District will select a Municipal Advisor for all debt issued for major capital acquisitions and for any issuances where there are complex or special circumstances as determined by the Fire Chief or Finance Director. The firm or individual selected as Municipal Advisor will provide a full range of advisory services in connection with the District’s financing programs and must be a duly registered Municipal Advisor under applicable Securities and Exchange Commission (SEC) and Municipal Securities Rulemaking Board (MSRB) rules.
  - 4.2.1. A Municipal Advisor under contract with the District will not purchase or sell any CKFR related debt.
  - 4.2.2. The Finance Director shall monitor the services provided by the Municipal Advisor and provide reports to the Fire Chief and Board as requested.
- 4.3. **Appointment of Bond Counsel** – Bond Counsel provides an opinion on the validity of a debt offering, the security for the offering, and if and to what extent interest on the debt is exempt from federal income tax.
  - 4.3.1. All debt issued by CKFR shall be accompanied by a written opinion by legal counsel affirming that the District is authorized to issue the proposed debt, that the District has met appropriate federal, state, and local legal requirements necessary for issuance and, where applicable, a determination of the proposed debt’s federal income tax status. This approving opinion and other documents relating to the issuance of debt shall be prepared by a nationally recognized legal firm with extensive experience in public finance and tax issues, significant operations in Washington State and experience with Washington State law.
  - 4.3.2. The firm selected as Bond Counsel may be engaged to provide the full range of legal services required in connection with a) the issuance and delivery of particular bond issues ("Bonds") and b) on-going legal services



for the District financing programs, including advising the District on compliance with regulatory requirements.

- 4.3.3. The District's Finance Director shall submit to the Fire Chief a recommendation for the appointment of Bond Counsel. The recommendation shall be accompanied by an evaluation of options and a justification for the recommended course of action. The District's General Counsel shall monitor the services rendered by the Bond Counsel.
- 4.3.4. Bond Counsel under contract with the District will not simultaneously represent any other party involved in the District's financing unless a written waiver of the conflict of interest is obtained from the District.

4.4. **Appointment of Underwriters** – If a negotiated sale is approved under Section 5 below, the Finance Director, with assistance from the Municipal Advisor and as approved by the Fire Chief, shall select an underwriter(s). The primary role of the underwriter in a negotiated sale is to market the debt to investors and purchase the debt from the District. The selection of underwriters may also be based upon a competitive evaluation of proposals submitted in response to a Request for Proposals (RFP).

4.4.1. The Finance Director, with assistance from the independent Municipal Advisor, shall monitor the services rendered by the underwriter.

4.4.2. If an issue is sold by a competitive sale, the issue will be awarded to the qualified bidder offering the lowest true interest cost to the District.

4.5. **Appointment of Arbitrage Rebate Calculation Firm** – The Finance Director shall, when deemed necessary, procure the services of an arbitrage rebate calculation firm. The purpose of the arbitrage rebate calculation firm is to provide arbitrage rebate compliance services in accordance with the Code (see section 2.1.2).

## 5.0 TRANSACTION SPECIFIC POLICIES

### 5.1. Method of Sale

In consultation with the Municipal Advisor, CKFR shall select a method of sale that is most likely to achieve the lowest cost of borrowing while taking into account both short-range and long-range implications for taxpayers based on a thorough analysis of the amount of the financing, relevant rating, security, structure, market conditions, and other factors pertaining to the proposed issue.

5.1.1. **Competitive Bid Method** – Debt issued on a competitive bid basis will be sold to the bidder offering the lowest true interest cost to the District. If debt is sold on a competitive bid basis, bids should take the form of electronically transmitted offers to purchase the debt through a qualified electronic bid provider.



- 5.1.2. **Negotiated Sale Method** – When market conditions or special complexity or other features of a debt issuance may cause the debt issuance to be less suited for sale by the competitive bid method, the Finance Director, in consultation with the Municipal Advisor, will submit to the Board a request to sell the debt issue on a negotiated basis.
- a. If debt is sold on a negotiated basis, the negotiations of terms and conditions shall include, but not be limited to, prices, interest rates, yields, priority of orders, and underwriting or remarketing fees.
  - b. The District, with the assistance of its Municipal Advisor, shall evaluate the terms offered by the underwriting team. Evaluations of prices, interest rates, yields, and fees shall include prevailing terms and conditions in the marketplace for comparable Districts.
  - c. If more than one underwriter is included in the negotiated sale of debt, the District shall establish appropriate levels of underwriting liability and the method of allocating compensation among the members of the underwriting group.
  - d. The District shall require a post-sale analysis and reporting for each negotiated bond sale. The Municipal Advisor or underwriter shall perform such analysis and provide a final pricing book by the day of the closing. A post-sale analysis will include at a minimum:
    - i. Summary of the pricing, including copies of the actual pricing wires;
    - ii. Results of comparable bond sales in the market at the time of the District’s pricing;
    - iii. Historic comparisons to Municipal Market Data indexes - day of sale basis; and
    - iv. Details of orders and allotments.
- 5.1.3. **Private Placement / Direct Purchase** – When deemed appropriate to minimize the costs and risks of the District’s debt issue, including to facilitate a debt issuance of small size or having other characteristics which may cause the debt issuance to be less suited to sale in a public offering, whether by competitive bid or negotiated sale, the Finance Director will advise the Fire Chief to submit to the Board of Commissioners a request to sell the debt issue through private placement or direct purchase.
- a. If a private placement or direct purchase is authorized, CKFR shall seek several proposals.
  - b. The RFP, developed with the help of a Municipal Advisor, shall include a term sheet, requesting quotes for financing alternatives consistent with the Legislative Authority’s goals. The proposers’ 1) fees and



rates, 2) terms and structure, and 3) acceptance of the terms and conditions of the District may be a factor in evaluating the proposals.

## 5.2. **Debt Structural Elements**

- 5.2.1. **Maturity** – CKFR shall not issue any debt with a maturity longer than 20 years pursuant to RCW 52.16.061.
- 5.2.2. **Debt Service Structure** – Unless otherwise justified, debt service should be structured on a level annual payment basis (level debt). However, the District may use “stepped” or “level levy” structures upon advice of the Municipal Advisor.
  - a. Unless otherwise justified, refunding bonds issued to achieve interest cost savings should typically be structured to produce approximately level savings in each fiscal year.
  - b. Unless otherwise justified, debt will exclude capitalized interest. If appropriate or required by applicable bond covenants, debt service reserve funds may be used.
- 5.2.3. **Coupon Type** – Unless otherwise justified, long-term debt will be sold with maturities paying interest on a periodic or semi-annual basis.
- 5.2.4. **Redemption Features** – For each transaction, the District shall evaluate the costs and benefits of call provisions.
- 5.2.5. **Maturity Structure** – The District’s long-term debt may include serial and term bonds. Unless otherwise justified, term bonds should be sold with annual mandatory redemption requirements.
- 5.2.6. **Tax-exemption** – Unless otherwise justified, the District shall issue its debt on a tax-exempt basis.
- 5.2.7. **Bond Insurance** – For each transaction, the District, in conjunction with the Municipal Advisor should evaluate the costs and benefits of bond insurance or other credit enhancements.

## 6.0 COMPLIANCE POLICIES

### 6.1. **Issuance and Post-Issuance Tax Compliance Procedures**

CKFR, in consultation with its bond counsel and other members of the Financing Team, as appropriate, shall comply with requirements of the Code, both at the time of issuance and post-issuance, as necessary to maintain the tax exemption for tax-exempt debt. The District may develop additional procedures (SOPs) to provide for methods to monitor compliance periodically while the debt is outstanding whether requirements of the federal arbitrage regulations and the restrictions of the federal private activity bond regulations applicable to the



investment and use of proceeds of tax-exempt bond issuances, as well as the facilities financed with those proceeds, are being properly observed.

6.2. **Arbitrage Liability Management** – Because of the complexity of arbitrage rebate regulations and the severity of non-compliance penalties, the District shall solicit the advice of bond counsel and other qualified experts about arbitrage rebate calculations.

6.2.1. CKFR shall, when deemed necessary or when required, contract with a qualified third-party for preparation of the arbitrage rebate calculation.

6.2.2. The District shall also maintain an internal record-keeping system for tracking investments and expenditures of bond proceeds. The expenditure of bond proceeds shall be tracked in the financial accounting system by issue.

6.3. **Issuance and Post-Issuance Disclosure Procedures** – CKFR, in consultation with its bond counsel and other members of the Financing Team, as appropriate, shall undertake procedures relating to ensure compliance with disclosure obligations which include:

6.3.1. The preparation, vetting/review and approval of official statements for all public offerings of its securities that must be delivered to the underwriter for distribution to potential and actual purchasers and that set forth the terms of the securities and information regarding the District;

6.3.2. Compliance with continuing disclosure obligations entered into by the District pursuant SEC Rule 15c2-12 that require the District to provide certain annual financial information and event notices to the public; and

6.3.3. Ensuring that if and when the District provides information that can reasonably be expected to be relied on by the financial market, that such information is not inaccurate or misleading.

## 7.0 OTHER POLICIES

7.1. **Rating Agencies** – The Fire Chief, or Finance Director if designated by the Fire Chief, in consultation with the Municipal Advisor, shall manage relationships with the rating analysts assigned to the District's credit, using both informal and formal methods to disseminate information.

7.1.1. **Credit Objective** - The District will seek to maintain and improve its bond rating to minimize interest costs and reflect the highest standards of fiscal responsibility and financial condition. The District will work to foster good relations with bond rating agencies and maintain full and open disclosure as appropriate.



7.2. **Refunding Savings Thresholds** – Any necessary Refunding will be conducted in accordance with the Refunding Bond Act, chapter 39.53 RCW. CKFR will consider refinancing debt to achieve savings as market opportunities arise

7.2.1. **Advanced Refunding** – Unless otherwise justified, an “advance refunding” will require a minimum net present value savings of four percent (4%) of the principal amount of the refunded debt.

7.2.2. **Current Refunding** – Unless otherwise justified, a “current refunding” will require minimum net present value savings as follows:

Years Between Call and Final Redemption		NPV Threshold
<i>Greater than or equal to</i>	<i>But less than</i>	
1 year	3 years	1.0%
3 years	5 years	2.0%
5 years	9 years	3.0%
Greater than 9 years		4.0%

a. With consultation with the Municipal Advisor, the District shall evaluate the efficiency of a refunding and breakeven rates.

7.3. **Derivative Products** - No derivative products will be utilized.

7.4. **Evaluating the Impact of Capital Program Spending** - The District shall evaluate the impact of capital program spending, operations and maintenance costs, and debt service on its financial condition.

7.5. **Debt Policy Review** - The District shall review and update its debt policy as necessary, but not than less than once every four years.

## 8.0 REFERENCES

- 8.1. Government Finance Officers Association (GFOA) Debt Management Policy Best Practices.
- 8.2. Municipal Securities Rulemaking Board (MRSB)
- 8.3. Washington Public Treasurers Association Debt Policy Resource Library
- 8.4. CKFR Financial Policies

## 9.0 ATTACHMENTS

None

